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VIA: Chief, Liaison Division/OLL

SUBJECT: CBO Working Paper on Military Housing Allowances

1. Attached hereto for your information is a Congressional Budget Office Working Paper on, "Military Housing Allowances: An Analysis of Alternatives for Change," dated October 1984.

2. Subsequent to this analysis, the Congress adopted changes in military housing allowances in the FY 1985 budget. The study gives estimates of the cost and distributional effects of the changes as reflected by the principal Senate plan (refer to Table 2).

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**MILITARY HOUSING ALLOWANCES:
AN ANALYSIS OF ALTERNATIVES FOR CHANGE**

Staff Working Paper

**The Congress of the United States
Congressional Budget Office**

October 1984

PREFACE

The level of funding for military housing allowances, particularly the Variable Housing Allowance (VHA) program, has come under close scrutiny by the Congress, which has considered several proposals for restructuring the housing allowances. Of concern are the overall costs and distributional effects of the various alternatives proposed. This report documents the analysis and briefings examining this issue that the Congressional Budget Office prepared during the summer of 1984 at the request of the Subcommittee on Defense of the Senate Appropriations Committee.

Subsequent to completion of the study, the Congress took action that changes housing allowances. The changes are similar to one of the options described in the paper. This study documents the results of those changes and analyzes other alternatives that could be considered in future deliberations. In accordance with CBO's mandate to provide objective and impartial analysis, the study offers no recommendations.

Marvin M. Smith of CBO's National Security Division prepared the study with the assistance of Jonathan Woodbury, under the general supervision of Robert F. Hale and Neil M. Singer. The author gratefully acknowledges the technical support provided by Maj. G. Richard Creekmore, U.S. Air Force, Maj. Roger W. Alford, U.S. Air Force, Lt. Donald G. Brazelton, U.S. Air Force, David Pomeroy and Roy Samarco, Per Diem Travel and Transportation Allowance Committee, and Douglas McCormick, Defense Manpower Data Center. (Outside assistance implies no responsibility for the final product, which rests solely with CBO.) The report was edited by Francis Pierce.

October 1984

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INTRODUCTION

Military service involves frequent shifts among duty stations. Most service members are furnished government housing, but some must rely on the private housing market. The cost of private housing would represent a severe burden for many military families if they had to bear all of it themselves. Accordingly, the Congress has established housing assistance for military personnel who cannot be accommodated in government housing.

Legislative History and Intent of Military Housing Allowances

In general, military housing allowances are designed to provide Uniformed Service members and their dependents with nontaxable cash assistance to help defray their expenses in obtaining private housing when they are not assigned adequate government quarters. Three forms of housing allowance have evolved to meet the needs of service members stationed both inside and outside the continental United States (CONUS): the Basic Allowance for Quarters, the "rent plus" program, and Variable Housing Allowances.

The Basic Allowance for Quarters (BAQ), the largest of the current housing allowance programs in both total dollars and number of participants, was enacted in 1949. BAQ rates, which are differentiated by pay grade and dependency status, were initially set at 75 percent of the housing cost of civilians with comparable incomes. In 1971, BAQ rates were increased to their current statutory level of 85 percent of median housing expenses of comparable income groups in the United States. Since 1971, however, BAQ increases tied to changes in military basic pay have failed to keep pace with rising housing costs, with the result that the current BAQ table falls short of the 85 percent figure.

In an effort to counter this adverse trend, the Congress established two additional forms of housing allowances. For members stationed outside CONUS, the Congress enacted the "rent plus" program in 1981 to offset the shortfall in BAQ. Rent plus, in actuality, replaced the station housing allowance (SHA) which had been in existence since 1946. Rent plus reimburses service members overseas for their actual housing costs up to the 80th percentile of rents locally based on surveys of the reported housing costs of military personnel.

For service members assigned to high-cost areas in CONUS, the Variable Housing Allowance program (VHA) was established in 1981 as an entitlement to offset disparities in housing costs. The program specifies

that service members eligible for BAQ also receive VHA if they are stationed in CONUS locations where the average monthly cost of nongovernment housing for service members exceeds 115 percent of their BAQ. VHA rates have been based on surveys of service members' housing costs, and vary with pay grade and dependency status.

Congressional Concern over Cost Growth in the VHA Program

Since its inception, the VHA program has grown over 33 percent (from \$677 million in fiscal year 1981 to \$901 million in fiscal year 1984). This program growth during a period of fiscal austerity has prompted the Congress to impose various budgetary constraints on the program in 1983-1984, and to consider revisions in all military housing allowances for 1985 and beyond.

In response to Congressional concern over VHA, a 1984 Department of Defense joint services study group examined many aspects of the program. The study group recommended, and the Administration endorsed, several changes that would serve as a basis for the restructuring of military housing allowances. Similar changes were subsequently included in House- and Senate-passed versions of the 1985 defense authorization bill.

Plan of the Study

This study focuses on alternatives that were of interest to the staff of the Senate's Appropriations Subcommittee on defense. They included proposals by the Administration and the changes incorporated in the House and Senate defense authorization bills. Included also were several alternative approaches that represent variants of the plans proposed by the Administration and the Congress. Among these alternatives are plans that call for differential treatment of officers and enlisted personnel.

The study assesses each alternative on the basis of two criteria: the total dollars involved and its equity or distributional impact on the service member. Specifically, the study presents the total amounts of BAQ and VHA under each alternative and its overall cost to the government, and also examines the impact of the various alternatives on service members by rank and across areas with differing housing costs.

Housing allowances are, of course, a part of military compensation, which must ultimately be adequate to allow the services to recruit and retain needed personnel. This analysis did not assess the effects of changes

in housing allowances on recruiting and retention. Nonetheless, the changes considered should not have significant effects on recruiting and retention, and any adverse effects could be offset by other compensation changes.

Finally, the study does not address changes in the "rent plus" program, although possible changes are currently under consideration by the Administration and may be the subject of Congressional review in future years.

CURRENT LAW AND ALTERNATIVE APPROACHES TO CURRENT LAW

Under current law, Basic Allowance for Quarters (BAQ) rates are graduated by pay grade, both for enlisted personnel and for officers (except for highest-ranking officers) and further differentiated by dependency status (namely, with one rate for members without dependents and another for members with dependents).

The Variable Housing Allowance (VHA) is found by subtracting 115 percent of an eligible member's BAQ from the average monthly housing cost for service members in the same pay grade. The calculation is done in each of about 340 local areas.

As part of an effort by the Congress to impose overall budgetary restraint, increases in VHA were limited to 4 percent in fiscal year 1983 to accompany the 4 percent limit on increases in cash pay and BAQ. Moreover, in fiscal year 1984, legislative action resulted in the following additional restrictions on VHA: fiscal year 1984 VHA rates were frozen at the fiscal year 1983 rates, and a monthly limit of \$800 was placed on total housing allowances (BAQ plus VHA) for service members with dependents (\$600 for those without dependents). These actions increased the absorption rate (or out-of-pocket costs) for service members from the statutory level of 15 percent of BAQ to the current average rate of 29.4 percent of BAQ.

Proposed Changes under Administration's Plans

In early 1984, the Administration submitted a proposal to revamp military housing allowances in several important aspects. One recommended change concerned the structure and level of funding of BAQ. Although BAQ was set in 1971 at 85 percent of median housing cost in CONUS as whole, present allowances represent a smaller percentage. As the result of limits on BAQ increases and sharp increases in housing costs, overall BAQ now averages just 65 percent of average housing cost, although the percentage varies among grades. To remedy this, the Administration

recommended an increase in BAQ funding and a restructuring of the BAQ table so that BAQ for each pay grade would equal 70 percent of the median housing costs incurred by service members of similar rank nationwide.

The Administration further recommended that the link between BAQ and VHA be severed. Aggregate VHA funds would be set at 15 percent of the median housing cost of Uniformed Service members nationwide. Funds would be allocated to local areas on the basis of a survey of military members' local housing costs. Future VHA funding would be adjusted according to changes in the housing component of the Consumer Price Index. With BAQ at 70 percent and VHA at 15 percent, service members would absorb the same 15 percent of housing costs as they did in 1971.

Finally, the Administration recommended that the VHA surveys be conducted biennially (instead of annually) and that caps on BAQ and VHA be rescinded. It also proposed measures to tighten the eligibility rules governing receipt of VHA payments. Primary among these include the elimination of VHA payments to service members during permanent change-of-station moves, and elimination of payments to members who live in government housing without dependents but receive BAQ at the with-dependents rate because of child support obligations.

DEFINITION AND COSTS OF ALTERNATIVE APPROACHES

To assess the overall budgetary impact of possible changes in military housing allowances, this section considers the Administration's proposed changes along with several alternative plans. These alternatives can best be evaluated in comparison to a housing allowance "baseline" reflecting the current program. For this study, the baseline housing allowance system chosen is the Administration's definition of "current system extended."

Definition of "Current System Extended" and Costing Assumptions

Several key assumptions underlie the analysis of the costs of the Administration's proposal and other alternatives presented in this study. Under the Administration's definition of the "current system extended," VHA for fiscal year 1985 is based on the 1982 VHA survey without any caps or other limits; this allows for some growth in VHA but not a complete return to the basic law, which would base 1985 VHA on the 1984 survey. On the other hand, baseline VHA costs for fiscal years 1986 to 1989 start with the fiscal year 1984 level (which includes the caps on BAQ and VHA) and adjust for growth due to pay raises and to the Administration's estimates of the numbers of service members eligible for VHA.

Under this definition, VHA costs in different fiscal years are calculated using different surveys. Despite this inconsistency, CBO adopted the Administration's definition because it has been used widely in the Congressional debate. A consistent definition that used the same base in 1986-1989 as in 1985 would produce higher VHA costs in 1986-1989.

BAQ and median housing costs under this definition are projected to increase in future years over 1984 levels, based on the Administration's projection and CBO's baseline economic forecast. BAQ is adjusted in fiscal years 1985 through 1989 by annual pay increases from the CBO February 1984 baseline for pay allowances of 3.3 percent, 5.4 percent, 5.6 percent, 5.5 percent, and 5.5 percent, respectively.^{1/} BAQ also increases in line with Administration estimates of increases in numbers of persons eligible. Median housing costs increase by 4.8 percent, 5.4 percent, 5.6 percent, 5.5 percent, and 5.5 percent, respectively; these factors are consistent with the February 1984 CBO baseline.

Cost of "Current System Extended"

As Table 1 shows, under the Administration's definition of "current system extended," BAQ and VHA for fiscal year 1985 are estimated to be \$4,421 million and \$1,185 million, respectively, for a total cost of \$5,606 million. The decrease in VHA in fiscal years 1986-1989 relative to fiscal year 1985 results from the different definition discussed earlier. For 1986-1989, VHA estimates were based on the the 1984 level of VHA cost that included the caps. For 1985, the VHA estimate was based on the 1982 survey predating the caps.

Costs of Principal Alternatives

Alternative plans have been proposed in the House and the Senate. Both the House and the Senate plans adopt the majority of the fundamental changes recommended in the Administration's proposal as discussed earlier, but differ in minor respects. The primary difference between the Administration and the House approaches is that the House plan (in H.R. 5167) proposes that service members stationed in Alaska and Hawaii (who are currently receiving rent plus) be included under the VHA program. Since this difference has only minor effects on costs, the analysis presented in this

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1. For fiscal year 1985, the Congress actually enacted a 4.0 percent basic pay increase for military personnel, effective January 1, 1985.

TABLE 1. COSTS OF CURRENT SYSTEM EXTENDED
(By fiscal year, in millions of dollars)

Year	BAQ	VHA	Total
1985	4,421	1,185	5,606
1986	4,771	1,073	5,844
1987	5,132	1,109	6,241
1988	5,484	1,137	6,621
1989	<u>5,834</u>	<u>1,154</u>	<u>6,988</u>
Total	25,642	5,658	31,300

study simplifies by assuming that the House plan includes Alaska and Hawaii under "rent plus" and not VHA. Given this assumption, the Administration and House plans are identical.

The Senate proposal (in S. 2723) deviates from the Administration plan by assuming that BAQ equals 65 percent of national median housing costs and VHA 20 percent, with absorption at 15 percent. The Administration assumes BAQ and VHA of 70 and 15 percent, respectively, with absorption of 15 percent.

With respect to the overall costs of these plans, under the Administration/House option, Table 2 indicates that BAQ would increase by \$238 million in fiscal year 1985 relative to the "current system extended," because the option increases BAQ to 70 percent of national median housing costs. VHA in 1985 would decrease by \$308 million because the higher BAQ reduces the need for VHA. Thus there is an overall net savings of \$98 million for the year. In later years, however, VHA savings do not offset BAQ savings largely because of the shift in the definition of baseline VHA costs discussed earlier. Thus the five-year cost of the option would be \$895 million over the current system.

TABLE 2. COSTS OF PRINCIPAL ALTERNATIVES (By fiscal year, in millions of dollars)

Option	Year	ALTERNATIVE			NET CHANGE FROM CURRENT SYSTEM			
		BAQ Revised	VHA Revised	Total Revised	BAQ	VHA	Other Reductions a/	Total b/
Administration/ House Plan c/	1985	4,659	877	5,536	238	-308	-28	-98
	1986	5,110	930	6,040	339	-143	-41	156
	0.70 BAQ	5,497	1,000	6,497	365	-109	-43	213
	0.15 VHA	5,875	1,069	6,944	391	-68	-47	276
	0.15 Absorption	6,249	1,137	7,386	415	-17	-50	348
Total		27,389	5,014	32,403	1,748	-645	-209	895
Senate Plan	1985	4,403	1,095	5,497	-18	-90	-23	-132
	0.65 BAQ	4,745	1,240	5,985	-26	167	-33	108
	0.20 VHA	5,104	1,334	6,438	-28	225	-35	162
	0.15 Absorption	5,455	1,426	6,881	-29	289	-38	221
	1989	5,802	1,516	7,319	-32	362	-41	290
Total		25,510	6,610	32,120	-133	953	-170	650

a. "Other Reductions" reflect changes in Rent Plus, Family Separation Allowances (FSA), and Dislocation Allowances (DLA), as well as the elimination of VHA during PCS travel status and the discontinuance of VHA for divorced members with child support living in government quarters.

b. Totals may not add because of rounding.

c. House Plan includes Alaska and Hawaii under Rent Plus and not under VHA.

In comparison with the Administration/House option, the Senate plan assumes a lower BAQ percent (65 vs. 70) but more VHA. This change yields more savings in fiscal year 1985--namely, \$132 million compared to \$98 million--and lower five-year costs. Savings are larger under the Senate plan because BAQ is paid to everybody while VHA is paid only where housing costs are high. Thus the Senate plan avoids paying excess BAQ in low-cost locations but provides VHA for the high-cost areas.

Costs of Alternatives with Differential Absorption

The options shown in Table 3 are variants of the basic ones just presented. These options treat officers and enlisted personnel differently, imposing higher absorption rates on officers than on enlisted service members. As will be apparent later, this approach tends to equalize the net cost of housing to officers and enlisted personnel as a percentage of their cash take-home pay.

In these variants of both the Administration/House and Senate plans, the absorption rate for officers is 20 percent, while enlisted members are still assumed to have absorption rates of 15 percent. The higher absorption rates for officers result in savings of \$163 million in fiscal year 1985 under the modified Administration/House plan and even larger savings of \$196 million in fiscal year 1985 under the modified Senate option. The net five-year costs associated with these plans are \$421 million and \$175 million, respectively. Because of the higher officer absorption rates, these options are less costly than their counterpart plans under the basic Senate and House alternatives.

Costs of Alternatives with Higher Absorption

Two other variants shown in Table 4 alter the basic plans by assuming a 20 percent absorption rate for all service members. This could be consistent with the philosophy that the government should reduce the portion of military compensation devoted to housing allowances and, if needed, spend more on cash pays or other allowances. In contrast to the options presented in the two previous tables, these plans result in net savings in each of the five years. Under the variant of the Administration/House plan, a net savings of \$310 million occurs in fiscal year 1985, with overall net savings of \$658 million for the five-year period. The variant of the Senate plan yields even larger net savings of \$343 million in fiscal year 1985, as well as greater net savings of \$902 million over the same five-year period. Indeed, this Senate alternative represents the least costly of all the options considered in this analysis.

TABLE 3. COSTS OF ALTERNATIVES WITH DIFFERENTIAL ABSORPTION (By fiscal year, in millions of dollars)

Option	Year	ALTERNATIVE			NET CHANGE FROM CURRENT SYSTEM			
		BAQ Revised	VHA Revised	Total Revised	BAQ	VHA	Other Reductions a/	Total b/
Administration/ House Plan c/ With Higher Absorption for Officers	1985	4,656	810	5,467	238	-375	-27	-163
	1986	5,111	835	5,946	340	-238	-38	64
	1987	5,498	898	6,396	366	-211	-41	114
	1988	5,876	960	6,836	391	-177	-44	170
	1989	6,250	1,021	7,271	416	-133	-47	236
	Total	27,392	4,524	31,915	1,751	-1,134	-197	421
		Officers:		0.70 BAQ 0.10 VHA 0.20 Absorption	Enlisted:		0.70 BAQ 0.15 VHA 0.15 Absorption	
Senate Plan With Higher Absorption for Officers	1985	4,400	1,028	5,428	-18	-157	-22	-196
	1986	4,746	1,145	5,891	-25	72	-31	16
	1987	5,105	1,231	6,337	-27	122	-33	63
	1988	5,456	1,316	6,772	-29	179	-35	115
	1989	5,804	1,400	7,203	-30	246	-38	178
	Total	25,512	6,120	31,631	-129	462	-158	175
		Officers:		0.65 BAQ 0.15 VHA 0.20 Absorption	Enlisted:		0.65 BAQ 0.20 VHA 0.15 Absorption	

- a. "Other Reductions" reflect changes in Rent Plus, Family Separation Allowances (FSA), and Dislocation Allowances (DLA), as well as the elimination of VHA during PCS travel status and the discontinuing of VHA for divorced members with child support living in government quarters.
- b. Totals may not add because of rounding.
- c. House Plan includes Alaska and Hawaii under Rent Plus and not under VHA.

TABLE 4. COSTS OF ALTERNATIVES WITH HIGHER ABSORPTION (By fiscal year, in millions of dollars)

Option	Year	ALTERNATIVE			NET CHANGE FROM CURRENT SYSTEM			
		BAQ		VHA	Total	BAQ	VHA	Reductions a/
		Revised	Revised					
Administration/ House Plan c/								
With Higher Absorption for All	1985	4,659	660	5,319	238	-525	-22	-310
0.70 BAQ	1986	5,110	620	5,730	339	-453	-32	-146
0.10 VHA	1987	5,497	667	6,164	365	-442	-34	-111
0.20 Absorption	1988	5,875	713	6,587	391	-424	-37	-71
Total	27,389	3,418	30,807	1,748	-2,240	-165	-658	
Senate Plan								
With Higher Absorption for All	1985	4,403	877	5,280	-18	-308	-17	-343
0.65 BAQ	1986	4,745	930	5,675	-26	-143	-25	-193
0.15 VHA	1987	5,104	1,000	6,105	-28	-109	-26	-162
0.20 Absorption	1988	5,455	1,069	6,524	-29	-68	-28	-126
Total	25,510	5,014	30,524	-32	-17	-30	-78	

a. "Other Reductions" reflect changes in Rent Plus, Family Separation Allowances (FSA), and Dislocation Allowances (DLA), as well as the elimination of VHA during PCS travel status and the discontinuing of VHA for divorced members with child support living in government quarters.

- b. Totals may not add because of rounding.
 c. House Plan includes Alaska and Hawaii under Rent Plus and not under VHA.

THEIR IMPACT ON MILITARY PERSONNEL

The discussion of the various alternatives thus far has focused on their aggregate costs to the federal government as compared to the continuation of the "current system" as defined by the Administration. Another important aspect of the alternative options is their effects on the costs borne by military service members. This study assesses the distributional impact of the various options on service members by estimating the unreimbursed housing cost associated with each alternative plan. Unreimbursed housing costs are estimated for members in various pay grades and at selected locations used by the Administration as examples of "low"- and "high"- cost areas. Unreimbursed costs are estimated by comparing median costs to military allowances in each area.

To help assess their impact, these median unreimbursed housing costs under alternative approaches should ideally be compared to a measure of net income across pay grades and local areas. Unfortunately, service members' net income is difficult to estimate because of individual variations resulting from special pays and allowances, state and local taxes, tax advantages, and other factors. In order to avoid such complications, in this analysis unreimbursed housing costs are compared to the cash take-home pay that all service members receive, defined as basic pay less federal income taxes and FICA. (Federal taxes are computed assuming standard deductions and a family of three.)

Median Unreimbursed Housing Costs in Fiscal Year 1985 under the Current System with Continuation of Caps

Table 5 shows median unreimbursed housing costs in fiscal year 1985 under the current system with the continuation of the caps, both in terms of dollars and as a percent of cash take-home pay, for several pay grades in two locations—Jacksonville, NC (defined by the Administration as a "low-cost" area), and Los Angeles, CA (defined as a "high-cost" area). This system is defined differently from the Administration's "current system extended" because the caps and other features of the current system remain fully in effect.

Under this system, unreimbursed costs vary widely. Perhaps the most important variation occurs across geographic areas. For example, a service member at the E-3 level in Los Angeles would absorb \$1,062 in unreimbursed costs compared to \$955 borne by his counterpart in Jacksonville. Since military personnel often have little control over assignment or reassignment, such geographical differences can cause unexpected hardships and morale problems.

**TABLE 5. MEDIAN UNREIMBURSED HOUSING COSTS IN FISCAL YEAR 1985 UNDER THE CURRENT SYSTEM WITH CONTINUATION OF CAPS, BY PAY GRADE
(In dollars and percent of take-home pay)**

City		O-6	O-3	E-7	E-5	E-3
Jacksonville, NC	--dollars	2,456	1,807	1,480	988	955
	--percent a/	6.9	8.6	9.8	9.1	11.7
Los Angeles, CA	--dollars	4,224	1,944	1,452	1,657	1,062
	--percent a/	11.9	9.3	9.7	15.3	13.0

- a. Unreimbursed housing cost as a percent of basic pay less taxes (federal and FICA).

Unreimbursed housing costs can also be dramatically higher for personnel in the upper grades. This is because the caps impose a relatively greater burden on upper-grade service members in high-cost areas. For example, an O-6 in Los Angeles would have unreimbursed costs of \$4,224 while an O-6 in Jacksonville would absorb \$2,456. As a percentage of take-home pay, however, senior officers' unreimbursed costs are still less than those of junior enlisted personnel.

Median Unreimbursed Housing Costs in Fiscal Year 1985 under Alternative Approaches

Table 6 presents median unreimbursed housing costs under the various alternatives to the current system. Unreimbursed costs are shown for 1985 when the alternatives would be in effect.

All the alternatives eliminate much of the wide variation in housing costs that occurs under the current system. Perhaps most important, under all the alternatives most persons of the same pay grade who move from one geographic area to another would continue to absorb the same dollar

**TABLE 6. MEDIAN UNREIMBURSED HOUSING COSTS IN FISCAL YEAR
1985 UNDER ALTERNATIVE PLANS, BY PAY GRADE
(In dollars and percent of take-home pay)**

	O-6	O-3	E-7	E-5	E-3
Administration/House Plan and Senate Plan a/					
Jacksonville, NC --dollars					
--percent b/	1,660	1,166	1,032	833	660
--percent b/	4.7	5.5	6.9	7.7	8.1
Los Angeles, CA --dollars	1,660	1,166	1,032	833	660
--percent b/	4.7	5.5	6.9	7.7	8.1
Administration/House Plan with Higher Absorption for Officers					
Jacksonville, NC --dollars					
--percent b/	1,992	1,439	1,032	833	660
--percent b/	5.6	6.9	6.9	7.7	8.1
Los Angeles, CA --dollars	2,213	1,554	1,032	833	660
--percent b/	6.2	7.4	6.9	7.7	8.1
Senate Plan with Higher Absorption for Officers					
Jacksonville, NC --dollars					
--percent b/	2,213	1,554	1,032	833	660
--percent b/	6.2	7.4	6.9	7.7	8.1
Los Angeles, CA --dollars	2,213	1,554	1,032	833	660
--percent b/	6.2	7.4	6.9	7.7	8.1
Administration/House Plan with Higher Absorption for All					
Jacksonville, NC --dollars					
--percent b/	1,992	1,439	1,130	829	667
--percent b/	5.6	6.9	7.5	7.7	8.2
Los Angeles, CA --dollars	2,213	1,554	1,376	1,111	880
--percent b/	6.2	7.4	9.2	10.3	10.8
Senate Plan with Higher Absorption for All					
Jacksonville, NC --dollars					
--percent b/	2,213	1,554	1,376	1,107	880
--percent b/	6.2	7.4	9.2	10.2	10.8
Los Angeles, CA --dollars	2,213	1,554	1,376	1,111	880
--percent b/	6.2	7.4	9.2	10.3	10.8

- a. The Senate plan has the same absorption as the Administration/House plan in these two areas. But in some lower-cost areas the Senate plan would impose higher absorption.
- b. Unreimbursed housing cost as a percent of basic pay less taxes (federal and FICA).

costs. 2/ This would eliminate one major problem associated with the current system.

All the alternatives also moderate the large out-of-pocket costs absorbed by those in the upper pay grades. This follows from the elimination of the caps on VHA that caused high absorption for the upper pay grades under the current system.

Comparison among the alternatives reveals some differences. Unreimbursed costs are obviously higher in alternatives that impose 20 percent absorption rather than the 15 percent proposed by the Administration. More important, in all the alternatives, the dollar amount of unreimbursed costs increases with rank but decreases as a percentage of take-home pay; but the alternatives that impose higher absorption on officers modestly narrow the differences in unreimbursed housing costs as a percentage of cash take-home pay. To this extent, some might view these alternatives as more "equitable."

POSTSCRIPT

This study documents analysis done in the summer of 1984 for the staff of the Defense Subcommittee of the Senate Committee on Appropriations. Subsequent to the analysis, the Congress--as a result of action on the budget for fiscal year 1985--adopted changes in military housing allowances. The changes are most similar to those described under the principal Senate plan. This study thus provides approximate estimates of the cost and distributional effects of the changes made by the Congress.

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2. There are a few exceptions. In some cases--for example, Jacksonville under the Administration/House plan--a service member's BAQ more than covers actual housing costs. Thus that member ends up absorbing lower out-of-pocket costs than others of the same rank in other locations.